

Indian equity markets- Where is the Nifty headed post demonetisation?

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On November 8th 2016, the whole world was on tenterhooks waiting with bated breath for the outcome of the closely fought Presidential elections in the US, which was due to be declared the following day. Meanwhile in India, as millions of people were settling down in their homes in the evening after their day at work, something really, really unexpected was about to happen for the first time in the history of the country.

Late in the evening, the Government made a surprise announcement which was broadcast across news channels that more than 80 percent of the widely circulated Rs. 500 & 1000 denominated currency notes will cease to become legal tender from the succeeding day.

The immediate reaction from the totally unanticipated move was that of alarm, with thousands hustling to ATM's to withdraw whatever cash they could get hold of to meet their daily necessities. The commodities exchanges in India; MCX & NCDEX, which were still open for trading saw a sudden spurt in gold prices as panic gripped investors rushed to buy the yellow metal and jewellery to mostly get rid of the demonetised currency.

The following day, the Indian stock markets opened sharply lower and the leading index; the Nifty started the day with a gap- down of more than 6 percent from the previous day's close with almost all the sectors getting a thorough punishment. However, traders expecting a further crash in the markets were in for a surprise as most of the losses on the Nifty were accounted for and by the end of the session, the primary index was down by a little more than a percent. Although it is difficult to comprehend if the recovery was the result of short covering or due to a spike in the global markets following the victory of Donald Trump in the US Presidential election, a number of traders & investors in the Indian markets would have headed back home with a smile, even if it was temporarily.

For the rest of 2016, we have seen a volatile equity market with the Nifty taking out the lows of November 9th twice before managing to pull back effectively. The index has remained in the 7900- 8300 range for the rest of the year.

Going into 2017, we have a key global events lined up. The list includes the swearing- in of the new President of the United States, elections in a number of countries within the euro- zone and more clarity on Brexit.

On charts, the Nifty looks to be holding above the short- term bearish trend and the index could continue with its gains that are likely to extend anywhere between 8500- 8900 with key technical supports at 8250- 8300. However, the long term bullish move on the Nifty will ONLY be realised if the index manages to settle above 8900.

Keep your fingers crossed until then....

Nifty- Weekly chart

